

Troubled Asset Recovery Plan (TARP) Capital Purchase Plan (CPP)

TARP is a federal program that is administered by the U.S. Treasury. The federal banking regulators will monitor all banks that receive TARP funds for compliance with new lending and loan modification rules along with executive compensation restrictions. The CPP is designed to be used by healthy banks to increase their capital base so they can increase lending. This plan is not a gift to healthy banks. In fact healthy banks participating in the CPP will produce significant income for the Treasury in addition to repaying all of the TARP funds to the Treasury.

51 Iowa based banking organizations applied for the TARP CPP. Most of those banks are still waiting for approval from the Treasury Department. Several banks which have been approved have declined to take the money. They decided not to take the money because of the cost of the program and a lack of opportunities to generate new loans and deposits. There are very few Iowa businesses trying to expand, and most people are very concerned about the future. Iowans are generally financially responsible so in times like these they are reluctant to contract for more debt. In the immortal words of Yogi Berra, "If people don't want to come to the ballpark, nobody's going to stop them."

You can see by the bank ratios and data I handed out that Iowa banks have strong capital. The strong capital position reduces the need for participation in the CPP. A well capitalized bank will probably see a decline in its earnings during the first year it has TARP money, because it will be difficult to increase its loan and deposit volumes enough to off set the cost of the new capital. It is difficult for bankers to decide to take TARP money when they know it will hurt their current earnings and they will be subject to more regulatory burden. Bankers must believe there is an opportunity to make good loans by leveraging the new capital in order to participate in the CPP.

Iowa state chartered banks increased their loans by 6.94%, more than \$2 billion in 2008. In 2007 loans increased 3.90% from the previous year. The banks generated much more than \$2 billion in new loans last year, because a lot of loans were paid down during 2008. The banks more than doubled the amount they provided for loan losses – a total of \$186 million.

94% of Iowa state chartered banks were profitable last year. Profitability is important because profits add to capital and provide a cushion against future losses. Most of the banks which lost money had significant exposure to commercial real estate and development lending.

Banks in growing markets have opportunities to acquire deposits and make loans. These banks may be able to use TARP CPP funds. Banks in stagnant or shrinking markets will not be likely to participate in the program. The banks which participate in the program will not see an immediate improvement in their earnings. It will take time to generate the new loans and deposits required to produce a profit.



State Bank Ratios and Data

(#s in millions)

Using Quarter 4 , Year 2008 Call Report Data

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State Bank Data and Ratios	2008	2007	2006
TOTAL NUMBER OF BANKS	322	332	341
TOTAL ASSETS	45,591	42,367	40,944
TOTAL LOANS	32,003	29,925	28,802
TOTAL DEPOSITS	35,922	33,424	32,663
CAPITAL	4,486	4,225	4,059
NET INTEREST INCOME	1,440	1,306	1,297
NON-INTEREST INCOME	315	291	294
PROVISION FOR LOAN LOSSES	186	71	53
OVERHEAD	1,072	992	985
NET OPERATING INCOME	420	440	446
RETURN ON ASSETS	0.92	1.04	1.09
NET INTEREST MARGIN	3.39	3.33	3.41
PAST DUE	2.79	2.15	1.67
OVERHEAD/AVG. ASSETS	2.35	2.34	2.41
CAPITAL/ASSETS	10.62	10.69	10.65
LOAN GROWTH	6.94	3.90	9.24
DEPOSIT GROWTH	7.47	2.33	7.34
ASSET GROWTH	7.61	3.48	6.98
ALLL/TOTAL LOANS	1.24	1.14	1.17